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Business Development and Entrepreneurship on the Navajo Reservation

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by

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ABSTRACT

Business Development and Entrepreneurship on the Navajo Reservation

by

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In this paper, I explore the underdevelopment of the business sector on the Navajo reservation. I investigate why the Navajo reservation continues to be economically depressed and find that institutions unique to the reservation create barriers that disincentivize formal business development. I first conducted a literature review on general barriers to entrepreneurship. Second, I reviewed the institutional analysis of the Navajo reservation to understand how institutions affect potential entrepreneurs. Next, I summarized a three-phased entrepreneurship training program on the reservation. Finally, I assessed the results of the program and how it was effected by barriers to business development.

I conclude that there are three main barriers that discourage entrepreneurship. First, red tape and a complicated business license application process disincentivize new business development in the formal economy. Second, a lack of private property rights limit how entrepreneurs can access and develop land. Third, the Navajo reservation lacks access to lending opportunities, restricting the capital that is necessary to start a business. These barriers combine to create a vicious cycle of underdevelopment and poverty.

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PUBLIC ABSTRACT

Business Development and Entrepreneurship on the Navajo Reservation

Sierra P. Hoffer

In conducting this research, I investigate why the Navajo reservation continues to be economically depressed. By studying the process to start a business on the reservation, I found that institutions unique to the reservation create barriers that disincentivize business development.

I conclude that there are three main barriers that discourage entrepreneurship on the Navajo reservation: a complicated business license application, a lack of private property rights, and limited access to lending opportunities. These barriers combine to create a vicious cycle of underdevelopment and poverty.

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INTRODUCTION

Dire conditions on most Native American reservations are well-documented and researched, and the Navajo Nation is no exception. Incomes are well below the poverty rate, infrastructure is generally lacking, and education levels are low (U.S. Census Bureau, 2016). The Navajo reservation is the largest Native American reservation in the United States, both in geographical size and population. Although the United States overall has a robust and growing economy, the Navajo reservation is economically comparable to many less developed countries. The reservation's unemployment rate is 50 percent and a similar portion live below the U.S. national poverty line (U.S. Census Bureau, 2016). In spite of the stated interests of Federal, state, and private advocates, the tribal government has not been able to successfully combat the rampant poverty.

This paper seeks to add to a larger conversation regarding the political institutions that limit the Navajo people from realizing economic growth. Similar to Hernando de Soto's *The Mystery of Capital*, we studied the process to obtain a business license, what property rights are like on the reservation, and the hindrances surrounding securing business capital. Within these institutions, there is a complex and disincentivizing process to start a business.

In addition, this paper follows the process of creating an economic development plan and implementing an entrepreneurship training program on the Navajo reservation. Poor economic conditions and few opportunities to create personal economic gains feed into a vicious cycle of poverty and underdevelopment. In this thesis I document an entrepreneurship teaching program, similar to programs implemented in countries with similar economic conditions as a framework to empower and provide opportunities to people whose entrepreneurial spirit is not matched by resources that would allow them to be sustainably self-reliant.

LITERATURE REVIEW

The literature on Native American economics suggests that few reservations have overcome the institutional forces that hold their members in poverty, making the state of Native American communities a topic of interest for many development economists. While some Native American tribes have freed themselves from multigenerational poverty by using institutional reform and nation building (Cornell and Kalt, 1998), many reservations, including the Navajo Nation, still remain economically depressed.

One solution to the perpetual poverty problem on the reservation is entrepreneurship. Widely regarded as the first scholar to study entrepreneurship and the entrepreneur, Joseph Schumpeter theorized that entrepreneurship can increase the standard of living for the surrounding economy. Other scholars have also studied how entrepreneurship allows business owners to create jobs for themselves and others (Bruton et al., 2013). Gartner (1990) pioneered the study of new venture creation and the positive effect that entrepreneurship has on the broader economy. Caree et al. (2002) expanded on this research and found that entrepreneurship reduces unemployment.

These researchers are not alone in their findings. Researchers worldwide have found that both innovation and entrepreneurship have positive effects on economic growth. This result agrees with a substantial body of literature (see Acs et al., 2004; Peredo et al., 2004; Van Stel et al., 2005, among others).

From our analysis of the Navajo Nation, and Montezuma Creek within the Aneth Chapter specifically, we found that three common themes regarding institutions that were hindering business development. The first was excessive business regulation. Second, conflicting incentives surround the property right system. Third, a lack of access to financial resources limit potential business capital. In what follows, we discuss the arguments that surround these ideas and how these three institutions limit the entrepreneur's incentive to create a business on the Navajo Reservation.

RED TAPE AND REGULATION

The work of Joseph Schumpeter (1934) became the basis of what would be Phase III of an entrepreneurship training program, as further described later in this paper. If entrepreneurship promised such positive results, why were we not seeing more individuals on the reservation starting their own business? We observed that despite the institutional barriers faced by Aneth Chapter members, small underground markets did exist to provide for some market needs. These ventures include food services, arts and crafts, childcare, and others. Although these markets are small, they indicate an ability and entrepreneurial spirit to meet the needs of the community.

Many of these observed “businesses” are not created within the formal institutional structures. In a 2013 discussion with a local entrepreneur who had started her own sandwich shop, we learned that after seven years of doing business, she had still not acquired a business license. The process to apply was so onerous and time consuming that she had to risk operating her business outside of the legal licensure system. Three years after that initial conversation, we learned that this entrepreneur’s application for a business license was still not approved. She had chosen to abandon her business and was seeking other employment.

Institutional barriers to entering markets create an undue burden on entrepreneurs and threaten their role as business creators – undermining a vital aspect of a healthy economy. This field of study was pioneered by Bain (1956) when he defined barriers to new venture creation and the effect they have on a broader economy. Although these barriers come in many forms, such as high monetary costs or high costs to market entry (Karakaya and Stahl, 1989), Gorecki (1975) analyzed how these barriers have a disproportionally negative effect on new businesses. These effects have been measured both at the conceptual level and using statistical analysis (Sternberg et al., 2005). The extent of these barriers affects the rate at which new businesses enter the market (Dean and Meyer, 1996).

Bureaucratic red tape and government regulation are common formal institutional barriers that are unfriendly to business creation (Porter, 1980; Klapper et al., 2004). Areas with excessive regulation place a burden on the formation of new enterprises. A study by the Organization for Economic Co-operation and Development (OECD, 1998) suggests policies that promote entrepreneurship grow the economy. Empirical studies also show that countries with business creation incentives have higher rates of business growth (Wennekers et al., 2010).

Informal institutions can also act as barriers to entrepreneurship. Some assume culture plays a role in the lack of new venture creation. Entrepreneurship may take shape in untraditional forms when formal institutions create barriers. The process of following the legal system of business creation is so costly that many entrepreneurs turn to the informal economy. We saw this first hand with our entrepreneur who started a sandwich shop. Along busy sections of roads or highways, some individuals sell small trinkets, jewelry, or blankets. These entrepreneurs operate in a space, as defined by Webb et al. (2009), at the intersection between technically illegal but socially legitimate. Consumers of these goods and services, usually tourists, are unaware of the legal standing of the business, but recognize it as a socially legitimate venture, as evident by purchasing the goods.

PROPERTY RIGHTS

Well-defined property rights are a key component to allowing entrepreneurs to flourish. Demsetz (1967) suggests property rights are important because they allow people to form reliable expectations when dealing with others. If two parties are willing to trade goods, property rights to those goods help define the parameters of the sale. Clearly defined property rights lower transaction costs for people engaged in exchange. Demsetz and Alchian (1972) observed that property rights are actually a “bundle” of rights to use a resource in socially accepted ways. This bundle of rights consists of several types of sub-rights that can be retained or divested as the property owner sees fit. For example, if a Navajo entrepreneur had property rights over his land, he or she could utilize the land for profit.

Libecap (1986) hypothesizes that collective rights, like those imposed on the Navajo Reservation, have substantial efficiency problems. The stereotypical perspective of Native Americans as collective groups that did not recognize private property rights is inaccurate, as discussed by Galbraith (2006) and Anderson (1995). Galbraith suggests the economic disadvantages apparent on Native American reservations were institutionalized in the 19th century by a collective land-tenure system that was foreign to most indigenous tribes of North America. Similarly, Anderson discusses how the federal policy of forced individual land ownership and laws placing native lands under trusteeship led to economic harm. Anderson points to the federally imposed checkerboard pattern of land ownership seen on many reservations and the Bureau of Indian Affairs' poor supervision as evidence of economic harm.

The lack of property rights on the Navajo Nation creates a perverse incentive to business development. Because the land is not owned by individuals, it cannot be used to house a business or act as capital for investment purposes. In the case of our sandwich entrepreneur, she was one of the few that was lucky enough to own her home and the land it sat on. Because of this, she prepared the food from her kitchen and served it from the front window. Others in the community that live in government housing are not legally allowed to utilize their property in this way.

ACCESS TO FINANCIAL CAPITAL

De Soto (2000) also theorizes that property rights are critical to business development because of the role they place in securing capital. He finds that in developing areas, capital markets generally fail because people do not own formally titled property. Without formal title to property, a person's assets cannot be used as collateral for business loans. De Soto calls these unformalized property rights "dead capital" because the assets are not officially recognized or usable. As a result, entrepreneurs routinely ignore regulations and often leave businesses unregistered in undeveloped areas like the Navajo Nation. Entrepreneurs are forced to operate in the informal economy where they can exchange goods and services with one another, but often are uncomfortable extending this trade to strangers because of the technically illegal nature of their economy.

Existing literature clearly states that access to both physical and financial capital is a major factor contributing to new business creation (Ho and Wong, 2007; Evans and Jovanovic, 1989; Berger and Udell, 1998). Van Auken (1999) found that financial obstacles are among the most significant barriers keeping entrepreneurs from creating a business. Early 20th century literature suggested that risking personal assets was a characteristic of entrepreneurship (Knight, 1921). Berger and Udell (1998) found that personal assets are the primary method of financing new businesses, validating Knight's theory that entrepreneurs are risking their own assets for business creation. On the Navajo reservation, a lack of property rights means entrepreneurs without clear property rights to land as a personal asset have limited access to use that property to finance a new business.

Traditionally, entrepreneurs who do not have personal capital to fund a startup will turn to financial institutions for assistance; however, loan services are difficult to find on the Navajo reservation. Ho and Wong (2007) discuss how the availability of financing sources helps to facilitate market entry by lowering the barriers of capital requirements. Evans and Leighton (1989) also found that access to financial capital is crucial, with the probability of individuals becoming entrepreneurs increasing with more wealth and assets. This is especially true for U.S. reservations, which can realize economic growth with the expansion of business loan services, but banks are limited because a lack of property rights reduces options for collateral.

INSTITUTIONAL ANALYSIS

The Navajo reservation has unique institutional forces that set it apart from other locations in the United States. Based on the arguments and theory gleaned from the literature, we analyzed how these institutions present themselves on the Navajo reservation. In particular, how the combination of regulatory red tape, ill-defined property rights and a lack of access to financing have undermined entrepreneurship on the Navajo reservation.

BARRIERS TO MARKET ENTRY

The Navajo reservation's red tape and regulation regarding business creation is more complex than that of the broader United States. Additional processes and paperwork that come from a dual-bureaucracy complicate the business creation process and raise transaction costs. These costs become so burdensome that potential entrepreneurs cannot overcome the prohibitively high transaction costs for starting a business.

Obtaining a business license on the Navajo Reservation is the first of many difficult steps to starting a business. For non-corporate businesses, an entrepreneur must begin by registering the business with the IRS for tax purposes. The process of registering a business with the IRS is the same for all businesses in the United States. Once an entrepreneur has a Federal Employee Identification Number (FEIN), he/she can begin developing a financial statement that describes the business's assets and obtain a bank account for the business. The Navajo Nation requires bank account verification for business certification, as well as a summary of any past projects the potential business owner may have undertaken (Navajo Nation Division of Economic Development, n.d.). However, not having access to a nearby bank to open an account severely limits opportunities to obtain a business license. These institutions create a cyclical effect that disincentivize the entrepreneur from starting a business.

According to the Navajo Nation's Division of Economic Development, a potential business-owner must develop a business plan, perform market analysis, describe the owner's responsibilities and provide an organizational flow chart to the Navajo Nation's Division of Economic Development. Successful entrepreneurs generally do many of these processes before starting a business, although it is not required for business registration in Utah. These requirements are then reviewed by the Business Regulatory Department, which determines whether the requirements for a business certification have been met. Once all the requirements are met, the Business Regulatory Department visits the business site and can conclude if the business passes certification.

All businesses on the Navajo Nation must apply for recertification every year. The recertification process is not as lengthy as the initial certification process. However, if the business does not apply for recertification within six months of the fiscal year's end, the entrepreneur is required to start the entire business certification process over from the beginning.

The business license process applies to all businesses on the Navajo reservation, and the Division of Economic Development gives priority to businesses that are composed entirely or predominantly by members of the Navajo Nation.

Montezuma Creek operates under the same legal institutions as the rest of the Navajo Nation. Potential entrepreneurs work with the Northern Regional Business Development Office (NRBDO) of the Navajo Nation's Division of Economic Development. Business Analysts at the NRBDO work to provide support for business leases and/or business loans; however, the laws that govern business development on the Navajo reservation are more complex than their Utah counterpart. Navajo Nation Corporation Act Title 5, Chapter 19 requires corporate entities to register their business before conducting business within the Navajo Nation (Navajo Business, n.d.). Without proper legal assistance, the process of filing for incorporation can be very difficult for hopeful new business owners. Entrepreneurs seeking formal business registration must file the correct incorporation form, maintain and file an annual report, and communicate any structural changes of the company to the proper governing authority.

Obtaining a business license can be only half the process. Because there are few pre-development store front of business operation purposes, entrepreneurs must consider developing their own site. However, because the clear majority of land on the Navajo Reservation is held in trust for the Navajo Nation, meaning that potential entrepreneurs must obtain a business site lease from the Navajo Nation in order to have a physical business location. The business site lease process is a clear example of a tragedy of the anticommons (Heller, 1997). A tragedy of the anticommons is the result of too many decision makers having veto authority. Entrepreneurs face a high risk of having their application denied because several layers of bureaucracy and political decision makers who have the ability to deny a business site lease.

In addition, business site leases are not necessarily secure in the long term because leases are not indefinite rights to a parcel of land. Once a lease expires, the business owner must risk being denied a renewal. When discussing business site leases with the Northern Regional Business Development Office (NRBDO), there were no known examples of successful business site leases in Montezuma Creek. The considerable risk and uncertainty in obtaining a business lease is enough to deter many, if not most, potential business owners.

The first step in obtaining a business site lease is to submit a business proposal, which includes an application, business plan, and sources of funding. After submitting the proposal, the prospective business-creator must do extensive research and obtain clearances for developing the tribal land from the state, Bureau of Indian Affairs (BIA), tribe, and others. After obtaining clearance to investigate and potentially use a piece of land, the entrepreneur must obtain an archaeological clearance, an environmental assessment, sanitation clearance, road and utility clearance, and a legal land survey, among several other requirements from a number of federal, state, and tribal agencies (Navajo Business, n.d.). Extensive land-use requirements raise the cost of obtaining a business site to a point where many small business creators are dissuaded by the process

Although the Navajo Nation's Department of Economic Development claims the process takes three to six months, the exact timeline is not known. Timelines differ and entrepreneurs cannot be sure when they will be able to begin legally operating their business.

Once an entrepreneur fulfils all the requirements of a business site lease, both the Regional Business Development Office (RBDO) and BIA must review the application. Requiring two bureaucratic agencies to review a business site lease application substantially increases the transaction costs of starting a business. This dual bureaucracy makes legally starting a business a longer and more complicated processes than those same entrepreneurs that choose to start their business outside the reservation's boundaries.

After the RBDO and BIA review and approve all the application requirements, the RBDO negotiates lease conditions with the prospective lessee subject to BIA approval. This process can be time-intensive and costly if the BIA does not approve the negotiated lease conditions. Even after the terms of the lease are negotiated, the RBDO must find a Council Delegate willing to sponsor the lease, adding yet another layer of bureaucratic complexity and difficulty. The RBDO will deny a business site lease if no member of the Council is willing to sponsor the applicant. Council delegates can choose to approve or deny a lease without reason, adding the risk of corruption to the process of starting a business.

After Council approval the applicant must then receive approval from an Economic Development Committee (EDC), which holds a meeting to consider the lease request. Assuming all goes well at the meeting, the EDC then forwards the lease request to the Office of the President of the Navajo Nation. The President must sign the lease agreement on behalf of the Navajo Nation, giving one person final and ultimate authority to decide who can lease Navajo land for business development. These layers of political complexity create substantial room for political corruption and prevent economic development in the Navajo Nation.

CAPITAL PROBLEM

The lack of property rights and access to capital create yet another barrier to business development for potential Navajo entrepreneurs. While personal saving is an option, those that require additional capital are faced with two barriers to financial services. First, the lack of property rights on the reservation limits the prospect of developing land or creating home-based businesses. Second, a lack of usable assets, such as property, and lending opportunities makes it difficult to obtain necessary start-up capital. Because private property and lending opportunities are scarce, potential entrepreneurs on the Navajo reservation face substantial barriers to business creation.

Traditional entrepreneurs are able to use their land or other large assets as capital for their business either by housing the company on their property or by using their land ownership as collateral for a loan. Neither of those options are available on the Navajo Nation because the reservation system holds the land in tribal trust by the U.S. federal government. Potential entrepreneurs are limited in what they can develop without receiving a business site lease from the Navajo government, the federal government and other government bureaucracies. The public land system on the Navajo reservation removes the incentive and ability to utilize the land in business creation processes.

Even privately owned land on the reservation is not always accessible for business development. The General Allotment Act of 1887, also known as the Dawes Act, created two main property rights problems. The first problem, checkerboarding, was intended to assimilate Native Americans into American culture by spreading Navajo residents throughout reservation land and intermingling them with white settlers. All privately owned lands on the Navajo Reservation are a part of the checkerboard area. Even the largest areas of privately owned land are broken up by other land jurisdictions, most commonly state land. The checkerboard pattern prevents Navajos from being able to develop large tracks of land for ventures that require contiguous areas of land.

The second problem created by the Dawes Act was fractionation. Under fractionated ownership, a piece of land is divided up among the original landowner's heirs. The land itself is not divided, but rather each heir receives a portion of the interest to the land. As one landowner passes his land to his children, each child has a smaller ownership right to the same piece of land. Over the past century, the number of owners of each piece of land has grown exponentially. With a small percentage of ownership right to a piece of land, most landowners find it prohibitively costly to use the land. If any one potential entrepreneur wants to develop his or her land, he or she must gain consent from a majority of the land owners. The transaction costs of doing this are high, considering it is not uncommon for a piece of land to have hundreds (ILTF, n.d.). These property rights problems limit access to evenly privately owned land, which disincentivizes and prevents potential entrepreneurs from developing land into a business.

In addition to physical capital, the existing literature clearly highlights the importance of start-up capital to business success, but the Navajo entrepreneurs have few opportunities to receive funding. Lending opportunities are difficult on the reservation for two reasons. The first problem is the physical proximity to banks or lending sources. As internet access is a luxury not often afforded by residents on the reservation, individuals seeking financial services must visit the bank in person.

However, because the Navajo Reservation is so large and remote, many people who live on the reservation cannot easily access banking services. Throughout the 27,413 square miles, there are only seven banks and six of them are in the outer border towns. The nearest bank to Montezuma Creek is 40 miles off the reservation in Blanding, Utah, or 60 miles in Cortez, Colorado. Those who need regular visits to banks, such as for making payments on a loan or cashing a paycheck, must either drive long distances to banks or attempt to cash their check at a local convenience store. Without physical access to the banks, many residents on the Navajo reservation act within an all cash economy.

Even entrepreneurs who are able to make the trip to a bank for a loan, a lack of property rights means entrepreneurs do not have ownership over assets that could be used as collateral. On the Navajo Nation, debt financing is rare because without a title residents cannot use their homes as collateral to obtain a business loan. Collateral is important because it reduces the cost of lending and because it reduces a lender's incentive to take on risky projects (Thakor et al., 1991). These problems work against entrepreneurs by restricting access to necessary start-up capital. Without much startup capital or many assets, Navajo entrepreneurs are unable to start businesses on the reservation.

As noted in our review of the literature, not having access to start-up capital creates a barrier for business development. The distance entrepreneurs from Montezuma

Creek must travel, in combination with not having property that can be used as collateral for the loan, disincentives Navajo entrepreneurs from starting a business.

PRACTICAL APPLICATION

As an experiment to explore the practical dimensions of barriers to business creation, a three-phased was created. The end goal would be to provide the Chapter with a community-endorsed master plan to guide future economic development, infrastructure, and services. In addition, the project would provide a unique business and entrepreneurial training program for chapter members.

PHASE I: SURVEY AND FINDINGS

The first phase of this process required developing and conducting a chapter-wide survey. Understanding the unique challenges that are present on the reservation was vital to the success of the experiment as a whole. While attempting to collect initial research, we realized data availability on the Navajo Nation can be difficult to come by. A survey, personalized to this exercise, would allow us to not only understand the individual impressions of the members living in Aneth, but also make our presence known to the community and assess if our plan would be well-received. Plans were created to administer the survey during the annual Field Day Celebration in Montezuma Creek.

This survey acted as a “needs-assessment” and was conducted onsite in Montezuma Creek within the Aneth Chapter. During the Chapter’s annual Field Day celebration, the survey was administered to any willing adult in attendance. A total of 81 surveys were collected from August 15, 2014 to August 20, 2014. Of the 81 surveys received, 30 were collected on August 15, as a part of the Field Day Event. The rest were distributed and collected by representatives from the Northern Regional Business Development Office.

As part of this research, we hoped to better understand the needs and wants of the community pertaining to business development and business training. The responses from the survey indicated that many residents in the Aneth Chapter either did not have the necessary business training, or were unable to successfully utilize their skills in starting a business. The responses further suggested that a program with a strong emphasis on mentorship would create development opportunities for struggling entrepreneurs.

ABILITY OF THE WORK FORCE

The survey provided several reasons to be optimistic about the future for business creation in Montezuma Creek. The potential that the people saw in the area is an important factor in the success of the future plans. From the survey we identified three reasons to believe that Montezuma Creek has potential for increased economic opportunity: (1) respondents indicated a willing to start a business, (2) respondents indicated they have the educational ability to start a business, and (3) respondents indicated there there is unutilized and marketable skill in the community.

From the survey, 84 percent of the people were in favor of attending business trainings if they were available and close by. In addition, about 65 percent of women and 70 percent of men surveyed said they would be willing to use their land rights for the sake of either their future business or for the future business of someone else in the community. The survey also should that 95 percent women and 80 percent of men reported that they would support locally-owned businesses.

Several business ideas were brought up including grocery store, car repair, eatery, car wash, laundromat, and residential landscaping. These ideas represent the needs of the community and what individuals would be willing to bring to market if they had sufficient money and training.

The lack of formal businesses in Montezuma Creek is not due to a lack of formal education, as it was discovered that many of the people in the community have at least a 2-year degree. About 45% of women have at least a high school or equivalent education and 35% have gone further to receive a 2-year technical degree. Roughly 25% of the men reported having a high school education or GED equivalent and 35% have a 2-year degree either in a technical or trade school.

These existing skills have already led some to home-based businesses. 20% of men reported having a small, home-based business. These businesses included an eatery, fitness services, CPR courses, storage, and translation services. In addition, those that indicated having a home-based business also reported wanting to expand their current business.

Some respondents reported not being able to use their current skills or training in the local economy. About 30% of the men and 35% of the women said they have skills but are unable to use them in the current market. Members from the survey reported having the skills necessary to be a food server/waiter, manager, programmer, nurse, pharmacy technician, behavioral health specialist, and truck driver. A lack of available opportunities in Montezuma Creek renders these skills useless.

NEEDS WITHIN COMMUNITY

The survey indicated four main issues to starting a business. The issues pinpointed within the community are: (1) access to utilities, (2) access to training, (3) access to supplies, and (4) access to jobs.

Electricity and water were reported to be the most available as 90% of the people reported that they had access to it. However, 15%-30% have regular issues with their electricity and water. About half of the population has access to sewer but about 20% have issues with it. The same was true for telephone and internet. The biggest concern was that only 20-30% of the population has access to garbage collection and of that 20-30%, almost a third had problems with their waste collection services.

Besides a lack of reliability regarding utilities, there are also significant challenges with poor road conditions. About 60% of the people we surveyed said that they had issues with roads. The people in Montezuma Creek rely heavily on border towns to get basic home supplies. It was reported that the average person must travel to a border town between 2-3 times a week. Half of the people surveyed reported that they traveled to get groceries or to go out to eat. Other common needs that are not found within the community are basic household items, cleaning supplies, food, clothing, vehicle parts, and doctor visits. Respondents reported wishing that the following services were more readily available: groceries, pool and rec-center, hardware store, automotive shop, retail stores, fast food or restaurants, laundry facilities, gas stations, convenience shops, arts and crafts store, car wash, clinics, bowling alley, hotel or motel, and a market.

Another issue caused with road and transportation problems included the distance people have to travel to work. The majority, 40% of women and 30% of men, commute to work outside of the community. The next largest group of people reported not working at all. A small percentage reported working from home.

The survey also provided insight into what type of business development training would be most beneficial. Two answers stood out as the most important: (1) help making the change from home-based to a formal business site and (2) business plan training. Also popular was help marketing their business or attracting customers.

Our survey failed to address all the different types of business trainings that the people would find helpful. This was evident by the significant number of individuals that reported "other". This may require further research into the specific needs of the people.

PHASE II: MASTER PLAN

The second phase of the project involved the creation of a Master Plan document that would guide economic development in the Aneth Chapter. The document intended to identify and discuss specific strategies and policies that would encourage economic development and guide policymakers to create conditions favorable to businesses. A large majority of the plan focused on the benefits of creating business education programs and provide context for the next phase of the project.

The plan was designed to foster conversation among Chapter leadership to create an ever-evolving economic development plan with which members of the community can organically create specific ideas based on our analysis. The action steps are meant to guide leaders and community members through the process of implementing their ideas.

This document, as was currently written, took a unique approach to economic development. Unlike other Master Plans that intend be a preconceived roadmap, the intent of the document was to empower the members of the Navajo nation to seek out their own specific programs that would increase overall well-being in the community.

This dynamic approach is better for two reasons. This plan is more beneficial because it was laid out in a way that allows community leaders to implement the strategies whenever they are seeking out economic development programs. This means that the strategies can be used and reused whenever there is a need for them. This type of plan also brings in the potential for community involvement. Members of the community can come together in creating economic programs that they feel are best for their community. Once their ideas are in place, the action steps will guide leaders through the implementation process. Our intent was to prompt community members to come up with their own economic programs and then follow the outlined action steps during implementing phases.

The document focused on five main sectors of the economy: tourism, recreation and entertainment, education and training, health and welfare, and environmental restoration. Within each category, goals, challenges, strategies, and essential action steps were identified. These sectors were singled out because of their relevance to the community and their potential to make a positive impact.

One sector that we found most promising was education and training. Few opportunities are available in the Aneth Chapter, yet the community identified a need for mentorship in the survey. As such, the document outlines a proposed education development program. This program would provide personal finance training, student workforce development, and adult education. In addition, this program could collaborate with potential partners such as with DECA and Future Business Leaders of America (FBLA), trade schools, government assistance programs like Temporary Assistance for Needy Families (TANF), and the local school boards.

PHASE III: SEED

The final stage of this project was an entrepreneur development program. Precedent from this project came from the Small Enterprise Education and Development (SEED) program employed in the Jon M. Huntsman School of Business at Utah State University. Under the SEED program, student interns teach potential entrepreneurs the basics of running a business, help them create business plans, assist with loan applications, and continue to mentor loan recipients afterwards. This program has been used to successfully launch more than 35 businesses in South America and Africa. Because a variety of conditions within the Navajo Nation closely resemble those found in developing nations, a domestic SEED program was expected to yield similar results.

Since SEED was initiated in 2007, the program has supported the onsite work of 37 interns, provided management and university faculty mentoring support for the SEED program and provided logistical support for program implementation. All members of the partnership have made significant in-kind contributions of expert time and resources to cultivate a culture of stewardship, transparency and operational excellence. The SEED training program on the Navajo reservation consisted of a proven entrepreneurship curriculum taught by university students and NRBDO staff.

The curriculum was organized and presented in two sections. Section 1 was designed to cultivate an entrepreneurial mindset, encourage participants to refine alertness to viable business opportunities and help participants familiarize themselves to processes to capitalize on opportunities. At the end of Section 1, participants were encouraged to vet their business ideas with interns and others in their personal network and conceptualize how they might formalize their business plans.

Participants who were able to conceptualize viable business opportunities were encouraged to participate in Section 2 of the training, which took place the following semester. Section two taught the necessary components of a business plan, including market analysis, product development, financial summaries, and company analysis. These lessons assisted entrepreneurs in the formal creation and presentation of their business plans.

Two trained interns from Utah State University in Blanding traveled to the reservation with the responsibility to begin instructing and mentoring participants. These interns spent 6-weeks assisting potential entrepreneurs with basic business instruction, idea formulation, idea refinement, and business planning. After the trial semester, two new student interns took the place of the previous interns to teach Section 2 of the curriculum.

Interns for the Navajo program were selected based on their initial application, an in person interview, and references from professors. Strong candidates were those that were interested in business, entrepreneurship, and teaching. In addition to the formal business curriculum at Utah State University Blanding, interns were prepared by meeting weekly a Utah State University business professor.

To understand the forces that play into the poverty problem on the entire Navajo reservation, initial effort focused on the Aneth Chapter. Located entirely within Utah, the Chapter is geographically remote from the bulk of the Navajo Nation in Arizona and is somewhat "forgotten" in terms of economic opportunity and infrastructure. Montezuma Creek, Utah, where the chapter house is located, is a rural community with little infrastructure to promote and maintain business development. Today, individuals in poverty made up roughly 50% of the population. Comparatively, 22.6% of individuals live in poverty in San Juan County, and only 8.9% of individuals live in poverty in Utah. The median household income is $17,292 per year and one in three members make less than $10,000 per year (U.S. Census Bureau, 2016).

Within the chapter there are only six registered businesses (Navajo Business, n.d.). Business development is stymied by a lack of usable infrastructure including few paved roads, inadequate water and sewer systems, and unreliable electricity. Compounding the problem of lack of local businesses is the fact retail centers for purchasing food and supplies are generally located about 50 miles away, meaning substantial travel costs to acquire basic needs.

SUMMARY

Institutions that discourage business development are in large part to blame for poor economic development on the Navajo reservation. The major disincentives to business development—high costs of starting a business and a lack of capital—work together to create a vicious cycle that perpetuates widespread unemployment and poverty in the Navajo Nation.

Current legal barriers to market entry will likely continue to push many businesses underground. Some entrepreneurs will still create businesses, but the current system for obtaining a business license is too slow and will likely force many business owners to operate without obtaining a license. This could have long-term consequences if law enforcement begins shutting down these businesses that benefit Navajo society because they are unable to work within the bureaucratic framework for business creation.

Many communities share some of these problems with the Navajo Nation but do not see the same economic despair. Entrepreneurial spirit is often enough to trump one or two of these problems, but institutions on the Navajo Reservation, such as a lack of property rights, high barriers to market entry, and limited assess to financial capital, create a perpetual poverty problem. Dead capital on the reservation keeps Navajos from using their assets to afford starting a business. Navajos with enough capital can try to start a business, but there are prohibitively high costs to obtaining the legal rights to operate a business on the reservation which deters even those with the resources to attempt it. These institutional problems prevent Navajos from creating businesses and subsequent jobs, which only serves to keep the Navajo economy from growing.

Although the realities of institutional development have had significant impacts on economic development in Montezuma creek, there remains opportunity for further study of what kinds of institutions would improve the conditions for entrepreneurs. Additional examinations of other reservation communities could help illuminate both the problem and potential solutions to these real and pressing issues.

The lessons drawn from Montezuma Creek and the Navajo Nation more generally are instructive to other reservation communities that are similarly situated and are attempting to generate economic development within the few established business sectors. These lessons strongly suggest that the institutions tribes select to govern their business development sectors are a crucial part of the economic development process.

Institutional choices determine many of the outcomes that are feasible. Institutions that burden entrepreneurs act as barriers to economic development, while institutions that are transparent, timely and consistent allow entrepreneurship to drive economic development. Good institutions foster growth and development while bad institutions prevent individuals within them from improving their well-being and can even actively harm them. It appears the regulatory structure of Native American reservations is the latter kind of institution.

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